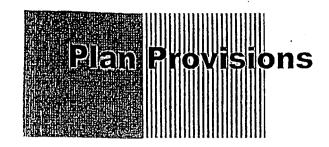
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Human Resource Consulting

Compensation Committee
Meeting
Proposed Equity Strategy

Diane L. DoubledaySan Francisco





- "Omnibus" Plan is a stock plan that provides the company flexibility to grant different types of equity vehicles. This is a normal practice for publicly-traded companies. The draft plan for Premera includes authority to grant:
 - Stock Options
 - Restricted Stock (stock with vesting contingent on performance or service)
 - Performance Shares/Units (award for achieving performance goals)
 - Stock Appreciation Rights (right to appreciation on specified number of shares; can be settled in shares or cash; can be granted stand-alone or in tandem with options)

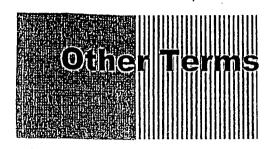
Recommended Approach for Years 1 & 2

- 7% share reserve
 - One-time IPO grant to all non-officer employees
 - Annual option grants to management*
 - Annual option grants to board of directors*
 - LTIP grant for 2005-2007 cycle**
 - Replacement of stock for cash in current LTIP
 - Current in-progress LTIP cycles continue with cash payout

October 17, 2003, Board modification: Waiting Period—No grants can be made until 3 months after Conversion

*Waiting period to be discussed

**Assumes conversion occurs in 2004 and the 2005-2007 cycle is the first new LTIP cycle after conversion



- Eliminate mandatory deferral of annual incentive plan and LTIP payouts and associated matching contribution prospectively as of the effective date of conversion*
- No plans to change AIP and LTIP with respect to opportunity levels and general structure
 - goals and weighting may change as determined by the board from time to time

Match would continue to apply to amounts already subject to mandatory deferral

Total Shares Reserved

Total shares reserved for first two-year period is 7.0% of common shares outstanding (CSO)

- Year One
 - One-time broad-based option grant: 1.55%
 - Management annual option grant: 1.48%
 - Annual board of director option grant: 0.18%
- Year Two
- Management annual option grant: 1.48%
 - LTIP grant: 0.67% (maximum award for outstanding performance)
 - Annual board of director option grant: 0.18%
- Reserve Pool: 1.46% to be used for grants such as:
 - New hires or promotions
 - Recognition awards to high performers
 - Extending LTIP eligibility lower in organization
 - CEO & EVPs (other than those hired or promoted) are not eligible for grants from the reserve for the first two years

Market Practices:

- Recently converted Blues have reserved 5-10% (median 6.1%) of CSO under the stock plan.
- > These reserves typically cover a period of 2-3 years.
- Large, public companies' total shares reserved in 2002 ranged from 11% to 20% of CSO.

One-time Broad Based Grant

- 1.55% of CSO reserved for a one-time broad based option grant to
 - Exempt employees
 - Non-exempt employees
 - Excluded: executives (VPs and above) and non-employee members of the board

Market Practices:

- ➤ Most Blues granted 2-4% of CSO in the initial year following IPO.
- About half of total grants went to the top 5 executives (median grant was 1.4% of CSO).

Ongoing Annual Option Grant

- 1.66% of CSO reserved for annual option grant to
 - Director-level employees and above (1.48% of CSO)
 - Non-employee members of the board (0.18% of CSO)

Market Practices:

- Among large, public companies, 2002 annual grant rates ranged from 1.1% to 2.6% of CSO for all employees.
- ➤ For a subset of public healthcare companies, 2002 grant rates ranged from 1.3% to 2.2% of CSO, with a median of 1.7%.
- ➤ Anthem granted 1.1% of CSO in 2002 and in 2001.
- ➤ Among Blues, the median waiting period between IPO and initial grants to executives was 6 months.

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Long Term Incentive Plan (LTIP)

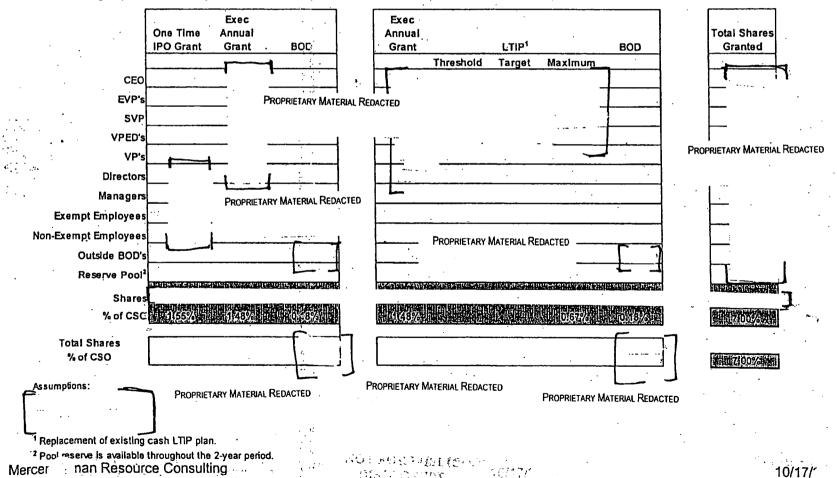
- Share reserve includes LTIP grant for the 2005 2007 performance cycle
 - Plan will pay in performance shares
 - This is a replacement for the existing cash payout (i.e., not an additional award)
- Participants in LTIP

 [] and above
- Shares are awarded at the beginning of the performance period based on the achievement of pre-determined goals
 - Grant is of CSO for the cycle assuming maximum-level performance PROPRIETARY MATERIAL REDACTED
 - Actual award will depend on performance

^{*}Assumes conversion occurs in 2004 and the 2005-2007 cycle will be the first new LTIP cycle after conversion

Equity Strategy Total Snares Reserved

- Total shares reserved is 7% of CSO; covers a period of two years.
- A pool of shares (1.46% of CSO) is reserved for out of cycle awards (e.g., new hires, promotions, additional grants to high performers).



Equity Strategy - Oct. 2003 Recommendation *Incividual Awards*

With target LTI awards and option grants, total direct compensation approximates the median of the healthcare market for the top executive officers and for board members (see pg. 14)

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Employee teve kinds and the second		pilors)	(Maximum)	options)	MACHINE (Options) And	Renomance.	Shares)
CEO		4				;	
EVP, Chief Legal (Milo)		PROPRIETARY MA	TERIAL REDACTED		: :	·	
EVP, Health Care Svcs. (Ancell)					PROPRIETARY M	ATERIAL REDACTED	1
EVP, Chief Marketing Exec. (Donigan)						· · · · · · · · · · · · · · · · · · ·	
EVP, CFO (Marquardt)		_		<u>.</u>			
SVP's					.		
VPED's	13						
VP's							ੋ⊸ ·
Director-level employees	# 0						
Managers PROPRIETAR	Y MATERIAL RE	DACTED					
Exempt Employees	, , , , , , , , , , , , , , , , , , , ,				PROPRIETARY MATERI	AL REDACTED .	
Non-Exempt Employees	1.7			.: <u> </u>			
Outside Board members							

Equity StrategyRecommended Stock Option Terms: Employees

Vesting	4 years, 25% per year
Option Term	10 year maximum
Exercise Price	Fair market value on the date of grant
Consideration for Exercise	Cash or previously owned shares valued at current market; cashless exercise
Voluntary/involuntary Termination	Employee will have 3 months (or the remaining term) following the termination date to exercise vested options. Unvested options are forfeited
Death/Disability	Employee (or estate) will have 1 year (or remaining term if shorter) to exercise all vested awards; unvested options accelerate
Retirement	Employee will have 1 year (or remaining term if shorter) to exercise all vested awards*
Change-in-Control	Within 2 years of conversion, options are not accelerated on CIC even if optionee is terminated. Thereafter, options are accelerated if they are not assumed or substituted by acquirer or if optionee is terminated before close on account of CIC. Assumed or substituted options accelerate if optionee is terminated during CIC window.
Repricing	Not permitted
Stock Option Transferability	Allowed to immediate family members or trustees for the benefit of optionee and family members

October 17, 2003 Board modification:

Unvested options accelerate at Retirement [(i) age 55 and 10 years of Continuous Service, or (ii) after age 55 so long as the sum of age and years of Continuous Service is at least 65]

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^{*-}Treatment of unvested options to be discussed

Equity StrategyRecommended Stock Option Terms: Board of Directors

Tem et al.	Delinition
Vesting	3 year pro rata (one third on each anniversary of grant)
Option Term	10 year maximum
Exercise Price	Fair market value on the date of grant
Consideration for Exercise	Cash or previously-owned shares valued at current market
Termination Due to Term Limit	Accelerated vesting of unvested grants and 1 year to exercise
Death/ Disability	1 year (or remaining term if shorter) to exercise all vested awards; unvested options accelerate
Voluntary/Involuntary Termination	If director does not stand for election, is not elected or terminates service other than because of death, disability or term limits, any unvested grants lapse and director has 3 months (or remaining option term if shorter) to exercise vested options
Change-in-Control	No acceleration
Repricing.	Not permitted
Stock Option Transferability	Allowed to immediate family members and trustees for the benefit of optionee and family members

Equity Strategy Total Compensation (Peer Group & Survey Blend)

		· -	Premera Compensation				Blended Market TDC*		Premera Variance to Market	
Incumbent	Title	200 Ba: Sala	e Target	Target LTIP Value ¹	Option Value ²	TDC _	50th %i le	75th %lle	50th %lle	75th %/II
Brereton Barlow	President & CEO	\$6	50						5011 71116	7301 760
Yori Milo	EVP, Chief Legal & Public Policy	\$40	17	PROPRIETARY MATERIAL REDACTED						
Brian Ancell	EVP, Health Care Svcs. & Strategic	••	· PR					PROPRIETARY MA	TERIAL REDACTE	D
Heyward Donigan	EVP, Chief Marketing Executive	\$30	8			.			٠	
Kent Marquardt	EVP, Chief Financial Officer	\$30	00		•			1	1	
Average:	。	i productivi					With the second	100000	-	•
	led assuming a larget award, a	and 2002 b				annually	Karania da			•

Note: Data in thousands

^{* 2002} market data aged to February 1, 2003

Equity StrategyTotal Direct Compensation (Board of Directors)

eon)P nyiName	Revenuel (in millions)	Proteiloasha Compensation		Total Equity is a second of the company of the comp	Total Directal Partial III in the Compensation is
Pacificare, Inc.	\$11,844	\$90,000	\$55,518	\$111,036	\$201,030
Humana Inc.	\$10,195	\$44,500	\$50,016	\$105,026	\$149,52
Health Net, Inc.	\$10,064	\$72,000	\$105,275	\$126,330	\$198,33
WellChoice Inc.	\$4,631	\$74,500	\$0	\$0	\$74,50
Oxford Health Plans, Inc.	\$4,421	\$55,000	\$92,431	\$92,431	\$147,43
Coventry Health Care Inc.	\$3,147	\$41,750	\$43,345	\$43,345	\$85,09
Mid Atlantic Med. Svcs, Inc.	\$1,793	\$38,500	\$60,574	\$84,803	\$123,30
Cobalt Corp.	\$1,439	\$46,504	\$13,621	\$29,967	\$76,47
Sierra Health Services, Inc	\$1,292	\$32,000	\$23,681	\$28,417	\$60,41
American Medical Security Grp.	\$877	\$40,600	\$55,178	\$62,075	\$102,67
75th Percentile	\$8,706	\$67,750	. \$59,310	\$101,877	\$149,00
Median	\$3,784	\$45,502	\$52,597	\$73,439	\$112,98
Average	\$4,970	\$53,535	\$49,964	\$68,343	\$121,87
25th Percentile	\$1,527	\$40,888	\$28,597	\$33,311	\$78,62
Premera: Pre Conversion	\$2,600	\$44,500.	\$0	\$0	\$44,5
Premera: Post-Conversion.			PROPRIETARY MATERIA	AL REDACTED	
Recommendation					

Premera vs. Peer Group Median 1069
Source: 2002 proxy statements.

Premera's recommended total cash compensation includes at annual retainer. In annual committee fees, in Board fees and in an annual committee retainer. Annual equity compensation assumes each director receives an annual grant of options at I with a Black-Scholes value.

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